

Message Text

CONFIDENTIAL

PAGE 01 NATO 03828 06 OF 06 090748Z

11/64

ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 CIAE-00 PM-04 INR-07 L-03 ACDA-07

NSAE-00 PA-01 SS-15 PRS-01 SP-02 USIA-06 TRSE-00

SAJ-01 DODE-00 NSC-05 EB-07 COME-00 FRB-03 /082 W

----- 069535

R 081905Z JUL 76

FM USMISSION NATO

TO SECSTATE WASHDC 8586

INFO USLO PEKING

AMCONSUL HONG KONG

C O N F I D E N T I A L SECTION 6 OF 6 USNATO 3828

C O R R E C T E D C O P Y (TEXT)

29. THE TRADE DEFICIT HAS NOT LED TO A BLANCE OF PAYMENTS CRISIS, SINCE BANKING TRANSACTIONS IN THE HONG-KONG AGENCIES AND REMITTANCES FROM OVERSEAS CHINESE HAVE PARTLY OFFSET THE DEFICIT ON CURRENT ACCOUNT AND CHINA HAS SATISFACTORY GOLD AND CURRENCY HOLDINGS AND CAN OBTAIN THE CREDITS IT NEEDS. SINCE 1972, THE LEADERSHIP HAS CONCEDED THE PRINCIPLE OF LARGER USE OF MEDIUM-TERM SUPPLIERS' CREDITS, LABELLED "DEFERRED PAYMENTS", BUT THEY STILL REFUSE GOVERNMENT-TO-GOVERNMENT CREDITS. THEY HAVE BEEN USING SHORT-TERM CREDITS FOR A LONG TIME NOW, MAINLY FOR GRAIN PURCHASES, BUT MORE RECENTLY, TO OBTAIN IRON AND STEEL GOODS AND FERTILIZERS.

30. JAPAN WAS STILL CHINA'S MAIN TRADING PARTNER IN 1974 AND AGAIN IN 1975, WITH A SHARE OF ALMOT 25PERCENT OF CHINESE TRADE TURNOVER. JAPAN CURRENTLY PLAYS A SIGNIFICANT ROLE AS SUPPLIER TO CHINA OF HIGH QUALITY STEEL AND SPECIFIC INDUSTRIAL EQUIPMENTS; ON THE OTHER HAND THE JAPANESE MARKET COULD BE SEEN AS MOST ATTRACTIVE TO THESALES OF CHINESE OIL ALTHOUGH A SHARP COMPETITION MAY ARISE FROM SIMILAR INTERESTS OF CHINA AND SOVIET UNION IN THE REGION SINCE THE LATTER HAS SHOWN ITS DESIRE TO FINANCING PART OF THE DEVELOPMENT OF EASTERN SIBSERIA THROUGH SALES OF OIL TO JAPAN. BECAUSE OF THE DROP IN GRAIN

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 NATO 03828 06 OF 06 090748Z

PURCHASES, THE UNITED STATES FELL FROM SECOND PLACE IN -975; THE

VOLUME OF TRADE WITH AUSTRALIA AND CANADA PROBABLY ALSO WENT DOWN FOR THE SAME REASON.

31. WESTERN EUROPE IS STILL THE MAIN SUPPLIER OF CAPITAL EQUIPMENT FOR INDUSTRY AND ADVANCED TECHNOLOGY. CHINA HAS OFFICIAL LINKS WITH THE EUROPEAN COMMUNITY, WHICH NOW RANKS SECOND AFTER JAPAN IN CHINESE TRADE. NEGOTIATIONS HAVE BEEN OPENED BETWEEN THE EUROPEAN COMMUNITY AND CHINA TO REPLACE THE PREVIOUS BILATERAL AGREEMENTS WHICH HAVE NOW EXPIRED. THE CLAUSE OF THE MOST FAVORED NATION HAS BEEN APPLIED TO CHINA AND PROGRESS WAS MADE IN LIBERALISING THE TRADE.

32. THE FOLLOWING TABLE GIVES A SUMMARY BREAKDOWN OF EXPERTS AND IMPORTS IN 1974 BY MAIN COMMODITY GROUPS; THE MAIN EXPORTS ARE CEREALS (RICE), LIVESTOCK PRODUCTS AND TEXTILES; THE CHIEF IMPORTS ARE GRAIN, INDUSTRIAL EQUIPMENT AND IRON AND STEEL. THE INDUSTRIAL EQUIPMENT IMPORTS INCLUDE SOME OF THE CHEMICAL INDUSTRY TURNKEY FACILITIES ORDERED IN PREVIOUS YEARS(1).

ANNEX II
THE CHINESE DEFENCE EFFORT

1. AS CHINA DOES NOT PUBLISH BUDGET ALLOCATION FIGURES FOR A NUMBER OF YEARS THE ASSESSMENT OF THEECONOMIC BURDEN IMPOSED BY THEDEVELOPEMENT OF THE MILITARY ESTABLISHMENT BECOMES LARGEY A MATTER OF SPECULATION. THE STRENGTH OF THE REGULAR ARMED FORCES IS CURRENTLY ESTIMATED TO BE THREE AND A QUARTER MILLION ANDTHE COST OF MAINTAINING AND EQUIPPING A FORCE OF THIS SIZE IS OBVIOUSLY CONSIDERABLE. IT SHOULD BE NOTED HOWEVER THAT THE "PEOPLE'S LIBERATION ARMY" IS INVOLVED IN BOTH AGRICULTURAL AND INDUSTRIAL PROEUTION AT THE UNIT LEVEL AND THAT, IN ADDITION, THERE ARE A NUMBER OF RAILWAY AND CONSTRUCTION ENGINEER DIVISIONS WHICH ARE CAPABLE OF PROVIDING A SIZEABLE CONTRIBTUION TO NATIONAL ECONOMIC DEVELOPMENT. HENCE, A PERCENTAGE OF THE FUNDS ALLOCATED TO THE ARMED FORCES IS RETURNED TO THE ECONOMY.

2. ON THE OTHER HAND, FOR MORE THAN A DECADE NOW A BIG EFFORT HAS BEEN MADE IN THE NUCLEAR FIELD, WITH ITS DIFFERENT

CONFIDENTIAL

PAGE 03 NATO 03828 06 OF 06 090748Z

PHASES HIGHLIGHTED BY THE MANY TESTS CARRIED OUT BY THE CHINESE. IT IS LIKELY THATTHE PRODUCTION OF A SMALL NUMBER OF BALLISTIC MISSILES HAS BEEN EMBARKED ON DURING THE LAST FEW YEARS. THE OUTPUT OF CONVENTIONAL WEAPONS, WHICH WAS STEPPED UP WHEN RELATIONS WITH RUSSIA WERE AT THEIR MOST STRANED, SEEMS TO HAVE SLCKENED OVER THE LAST THREE OR FOUR YEARS, AND THE MOST RECENT INFORMATION INDICATES THAT IT IS CONCENTRATED MAINLY ON MASS PRODUCTION OF ARMOUR AND ARTILLERY. THERECENT

PROCUREMENT OF FOREIGN AERO-ENGINES PROBABLY FOESHADOWS THE DEVELOPMENT OF A PROGRAMME OF INTERCEPTOR AIRCRAFT WITH AIR-FRAMES BASED ON SOVIET MODELS.

3. THE BIGGEST CHARGE ON THE BUDGET IS PROBABLY THE MANUFACTURE OF CONVENTIONAL AND NUCLEAR WEAPONS RATHER THAN THE MAINTENANCE OF LARGE ARMED FORCES. THE OPPORTUNITY-COST OF THE EMPLOYMENT BY THE ARMAMENTS INDUSTRIES OF THE BEST TECHNICIANS AND HIGH QUALITY GOODS IS PROBABLY ASTRONOMICAL, AND ACCORDING TO SOME EXPERTS THESE INDUSTRIES ABSORB MORE THAN 20PERCENT OF INDUSTRIAL PRODUCTION. WESTERN EXPERTS ALSO GENERALLY BELIEVE THAT BETWEEN 9PERCENT AND 10PERCENT OF THE NAT'L PRODUCT GOES INTO THE DEFENCE EFFORT, WHICH MEANS AN OUTLAY OF BETWEEN \$15 AND \$20 MILLIARD, 40PERCENT OF IT ABSORBED BY THE WEAPONS INDUSTRY.

END TEXT OF ECONOMIC REPORT. STRAUSZ-HUPE

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 08 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976USNATO03828
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: RR
Errors: N/A
Film Number: n/a
From: NATO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760777/aaaacpjg.tel
Line Count: 131
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 17 NOV 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 NOV 2003 by GarlanWA>; APPROVED <15 SEP 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: n/a
To: SECSTATE WASHDC USLO PEKING HONG KONG
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006